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SIPDIS

SENSITIVE

USTR FOR RSMITH, SCRONIN

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TAGS: ETRD BR FTAA

SUBJECT: UPDATE ON TIMING OF MERCOSUL FTAA OFFERS

REF: A) 1/21/03 FAIR-MALITO/SMITH EMAIL B) 1/24/03

FAIR-SMITH/MALITO EMAIL

SENSITIVE BUT UNCLASSIFIED.

11. (U) Brazilian dailies *Gazeta Mercantil* and *O Estado* reported today on the progress of market access discussions this week between Mercosul FTAA negotiating teams meeting in Asuncion. The dailies note that a consensus position regarding all of the FTAA market access offers has not been achieved. *O Estado* reported that Brazil had been unable to convince its Mercosul partners to delay submission of offers for services, investment and government procurement beyond the February 15 deadline, and speculated that this would pressure Brazil to accelerate preparation of its offers.

12. (SBU) ECONOFF subsequently spoke to Ana Patricia Neves Tanaka, an official who follows the FTAA market access negotiations within Itamaraty's FTAA Coordinating Office (COALCA), to clarify the situation; Tovar da Silva Nunes, head of COALCA, is still in Asuncion. Although no final decision will be made until Mercosul Ministers meet in Montevideo on February 5, it is expected that, as previously reported, joint Mercosul offers for industrial and agricultural goods will be made by February 15.

13. (SBU) Contrary to what was reported in *O Estado*, Neves Tanaka confirmed that Brazil still plans at this time to make a separate services offer also by February 15 (ref A); she expects that the other Mercosul countries will do likewise. Driven by differing legislation and national interests, the Mercosul partners have reportedly agreed to proceed with individual offers in services, investment and government procurement. According to Neves Tanaka, the main disagreement surrounds Brazil's interest in delaying its market access offers for investment and government procurement.

14. (SBU) Brazil is reportedly facing opposition to its proposal to delay investment and government procurement offers because Argentina, Uruguay and Paraguay have theirs prepared and want to meet the February 15 deadline. The expectation in Itamaraty has been that Mercosul proposals in the areas of services, investments, and government procurement would be presented under common preambles, with separate market access offers attached.

15. (SBU) Neves Tanaka believes it is unlikely that Brazil will change its decision to delay investment and government procurement offers until after February 15. This would leave its Mercosul partners in the uncomfortable position of having to decide if they will all hold back, or present an even less than united front by moving forward without Brazil.

16. (SBU) Neves Tanaka explained that the first three days of the meeting this week were political in nature and that discussions yesterday and today are technical. Technical work is focused on developing the joint goods offers. One thorny technical issue being discussed is how to treat products for which the Mercosul members have different tariffs rates due to the many exceptions that have been taken to the group's Common External Tariff. No additional information regarding characteristics of the Mercosul goods offers is available at this time (ref B).

HRINAK